

Message Text

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ORIGIN SS-15

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DRAFTED BY E:RASORENSEN:PB

APPROVED BY ARA:WDROGERS

S - RAHERNE

ARA - MR. GRUNWALD

D - MR. ROBINSON

EB - MR. KATZ -

NEA - MR. SOBER

AF -MR. BLAKE

EA - MR. EDMOND

S/S -R. KUCHEL

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FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 126380 TOSEC 130192

E.O. 11652: GDS

TAGS: OPEC

SUBJECT: ACTION MEMORANDUM: POSSIBILITY OF AN OPEC PRICE
INCREASE (S/S O. 7610583)

TO THE SECRETARY FROM ROBINSON AND ROGERS

1. THE PROBLEM. ON MAY 27 OPEC OIL MINISTERS WILL MEET
IN BALI TO DISCUSS, AMONG OTHER THINGS, THE POSSIBILITY
OF RAISING OIL PRICES. YOU EARLIER APPROVED A
RECOMMENDATION THAT WE INSTRUCT OUR AMBASSADORS IN KEY
OPEC CAPITALS TO MAKE APPROPRIATE REPRESENTATIONS AFTER
WE HAD A CHANCE TO ASSESS THE EFFECTS OF YOUR UNCTAD
SPEECH. THE QUESTION IS WHETHER WE SHOULD NOW PROCEED
WITH THOSE REPRESENTATIONS.

2. BACKGROUND ANALYSIS. THE NON-CONFRONTATIONAL
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ATMOSPHERE GENERATED BY YOUR SPEECH IN NAIROBI HAS
ENHANCED THE POSSIBILITY OF MODERATION BY THE CARTEL IN
ITS DELIBERATIONS ON PRICES. ON ECONOMIC GROUNDS ALONE,
THE CARTEL MIGHT HAVE TROUBLE WITH AN INCREASE BECAUSE

OF THE DROP IN DEMAND FOR HEAVY CRUDE AND THE PROBLEM THAT IT HAS WITH PRICE DIFFERENTIALS. ALL THESE FACTORS WILL TEND TO SUPPORT THE OPEC MODERATES -- SAUDI ARABIA, KUWAIT AND THE EMIRATES -- WHO ARE OPPOSED TO AN INCREASE AT THIS TIME.

A. WE HAVE ALREADY MADE CLEAR OUR VIEW THAT NEW PRICE INCREASES ARE NOT WARRANTED. IN APRIL IN THE CIEC ENERGY COMMISSION WE PUT FORWARD A STRONG ANALYTICAL CASE AGAINST HIGH OIL PRICES, EMPHASIZING THE PARTICULARLY SEVERE IMPACT FURTHER RISES WOULD HAVE ON NON-OIL LDCS. WE ALSO TOOK ISSUE DIRECTLY WITH THE OPEC CONTENTION THAT HIGHER PRICES ARE NEEDED TO RATION OIL FOR ITS QUOTE NON-SUBSTITUTABLE UNQUOTE USES. DURING HIS RECENT TRIP TO THE MIDDLE EAST, ZARB PUSHED FOR A CONTINUATION OF THE PRICE FREEZE.

B. ON THE OTHER HAND, OPEC HAS CLEARLY SOUGHT IN THE CIEC ENERGY COMMISSION TO LAY THE BASIS FOR JUSTIFYING AN INCREASE IN OIL PRICES. MORE RECENT REPORTS ALSO INDICATE THAT OPEC'S ECONOMIC COMMISSION BOARD HAS PREPARED STUDIES PURPORTING TO SHOW THAT IMPORT PRICES FROM INDUSTRIALIZED COUNTRIES HAVE INCREASED 15.4 PERCENT OVER THE PAST NINE MONTHS, THUS FURTHER BUTTRESSING THE CASE FOR AN INCREASE. FINALLY, IT IS CLEAR THAT SOME OF THE PRODUCERS, SUCH AS THE IRANIANS AND INDONESIAIS, ARE DETERMINED TO PRESS FOR AN INCREASE.

3. OPTIONS.

A. INSTRUCT OUR AMBASSADORS IN KEY OPEC CAPITALS TO MAKE DISCREET, NON-CONFRONTATIONAL REPRESENTATIONS PITCHED TO THE CIRCUMSTANCES AND VIEWS OF EACH OPEC GOVERNMENT. (A SUGGESTED CABLE IS AT TAB A)

PROS:

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-- A DIRECT APPROACH WOULD GIVE US THE OPPORTUNITY TO EXPLAIN THAT OUR OWN STUDIES SHOW THE PRICE OF OPEC IMPORTS FROM INDUSTRIALIZED COUNTRIES HAVE GONE UP ONLY 2.72 PERCENT (INSTEAD OF 15.4 PERCENT) AS ALLEGED BY OPEC'S EXPERTS OVER THE PAST NINE MONTHS. WE COULD THUS FURTHER STRENGTHEN THE HANDS OF THE OPEC MODERATES. IN THE CAPITALS OF THE HARD-LINERS, WE WOULD STRESS OUR MUTUAL INTEREST IN MAINTAINING THE PRESENT CONSTRUCTIVE ATMOSPHERE, IN IMPROVING ECONOMIC STABILITY AND IN EXPANDING WORLD DEMAND. IF DONE WITHOUT BEING ABRASIVE AND CONFRONTATIONAL, IT COULD DO SOME GOOD.

-- MORE IMPORTANTLY, DOMESTIC POLITICAL CONSIDERATIONS

REQUIRE THAT WE DO ALL WE CAN TO INFLUENCE THE OPEC DECISION. DEPSEC ROBINSON WILL TESTIFY BEFORE SENATOR KENNEDY'S ENERGY SUBCOMMITTEE ON JUNE 8. THIS WILL PROBABLY BE JUST AFTER THE OUTCOME OF THE OPEC PRICE DELIBERATIONS BECOME KNOWN. IF WE ARE CONFRONTED WITH A PRICE INCREASE IT WOULD NOT BE ENOUGH TO RESPOND TO CONGRESS AND TO THE AMERICAN PEOPLE THAT WE MADE OUR

CASE ON OIL PRICES IN THE CIEC AND THAT FRANK ZARB RAISED THE QUESTION DURING HIS RECENT MIDDLE EAST SWING. AMBASSADORIAL REPRESENTATIONS WOULD ENABLE US TO SAY THAT WE HAD GONE DIRECTLY TO PRODUCER GOVERNMENTS WITH OUR CASE AT A CRUCIAL TIME.

CONS

-- IF THE PRODUCERS DECIDE TO CONTINUE THE FREEZE OR TO RAISE PRICES ONLY SLIGHTLY FOR ANY OF SEVERAL REASONS (INCLUDING MARKET CONDITIONS), THEY COULD NEVERTHELESS CONTENTEND THAT THEY ACTED IN COMPLIANCE TO OUR DEMARCHES AND THAT WE SHOULD IN TURN MAKE CONCESSIONS IN OTHER AREAS (E.G., COMMODITIES). THIS COULD MAKE OUR DEALINGS WITH NORTH/SOUTH ECONOMIC ISSUES IN CIEC AND ELSEWHERE MORE DIFFICULT.

-- OUR POSITION AGAINST FURTHER PRICE INCREASES IS WELL KNOWN TO KEY OPEC COUNTRIES THROUGH INTENSIVE DISCUSSIONS AND ANALYSIS AT THE APRIL CIEC ENERGY CONFIDENTIAL

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COMMISSION. IF ADDITIONAL ACTION IS NEEDED, WE COULD REEMPHASIZE OUR POSITION UNILATERALLY IN A PUBLIC STATEMENT (OPTION B BELOW).

-- A FURTHER DEMARCHE AT THIS STAGE IS UNLIKELY TO CHANGE THE POSITION OF ANY OPEC GOVERNMENT. MOREOVER, IT WILL MAKE US LOOK LIKE MENDICANTS AND PROVIDE ANOTHER OPPORTUNITY FOR OPEC MEMBERS TO LECTURE US ON THE RATIONALE FOR A POSSIBLE INCREASE.

-- IF OPEC RAISES PRICES DESPITE OUR DEMARCHES, WE DEMONSTRATE OUR IMPOTENCE ON OIL PRICE ISSUES, WHICH SERVES NEITHER OUR DOMESTIC POLITICAL NOR INTERNATIONAL INTERESTS.

OPTION B: ISSUE A PUBLIC STATEMENT PRIOR TO THE BALI MEETING THAT MAKES THE STRONG ECONOMIC CASE AGAINST NEW PRICE INCREASES. THIS STATEMENT WOULD STRESS THAT THE PRICES OF OPEC IMPORTS HAVE RISEN LESS THAN THREE PERCENT SINCE THE OCTOBER PRICE HIKE OF 10 PERCENT, THAT FURTHER INCREASES WOULD ENDANGER THE FRAGILE ECONOMIC RECOVERY THAT IS BEGINNING TO BE WIDESPREAD,

AND THAT MARKET CONDITIONS DO NOT WARRANT HIGHER PRICES. (A DRAFT STATEMENT FOR YOUR CONSIDERATION IS AT TAB B).

PROS:

-- THE STATEMENT WOULD GIVE WIDE DOMESTIC AND INTERNATIONAL EXPOSURE TO OUR CASE AGAINST NEW PRICE INCREASES.

-- WITH THIS STATEMENT, OUR PRICE ARGUMENTS IN CIEC IN APRIL, AND THE RECENT ZARB TRIP WE CAN DEMONSTRATE TO THE CONGRESS AND PUBLIC THAT WE MADE AN EFFORT TO INFLUENCE THE OPEC PRICE DECISION.

-- THE PUBLIC STATEMENT COULD CHALLENGE THE CREDIBILITY OF THE STUDY OF THE OPEC ECONOMIC COMMISSION BOARD AND PROVIDE AMMUNITION FOR THE USE OF THE SAUDIS AND OTHER OPEC MODERATES AT BALI AS WELL AS DEMARCHES.

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-- SHOULD OPEC CONTINUE THE OIL PRICE FREEZE, THE PRODUCERS COULD NOT ASSERT THAT IT WAS IN COMPLIANCE TO OUR BILATERAL DEMARCHES, THUS REQUIRING CONCESSIONS ON OUR SIDE. (THEY WILL, IN ANY EVENT, INSIST IN CIEC AND ELSEWHERE THAT THE INDUSTRIALIZED NATIONS MUST TAKE ACTION TO MATCH THEIR QUOTE CONTRIBUTION UNQUOTE TO GLOBAL WARFARE.)

CONS:

-- WOULD NOT TAKE ADVANTAGE OF PERSONAL INFLUENCE THAT OUR AMBASSADORS MIGHT BE ABLE TO EXERT ON KEY OFFICIALS IN PRODUCERS' CAPITALS.

-- IF PRODUCERS RAISE PRICES DESPITE OUR EFFORTS, IT WOULD PUBLICLY DEMONSTRATE OUR INABILITY TO INFLUENCE PRICING DECISIONS.

-- OUR STATEMENT WOULD PROBABLY BE CHARACTERIZED BY SOME PRODUCERS AS UNWARRANTED INTERFERENCE IN OPEC AFFAIRS, PERHAPS MAKING IT MORE DIFFICULT FOR THE MODERATES TO OPPOSE PRICE INCREASES.

OPTION C: TO MAKE DEMARCHES IN OPEC CAPITALS AND ISSUE A PUBLIC STATEMENT (I.E., OPTIONS A & B).

PROS:

-- WILL DOUBLY EMPHASIZE OUR OPPOSITION TO OIL PRICE INCREASES AND SHOW CONGRESS WE PULLED OUT ALL THE STOPS TO INFLUENCE THE OPEC DECISION.

-- WILL GIVE TWO OPPORTUNITIES TO TAKE ISSUE WITH THE
OPEC ECONOMIC COMMISSION BOARD'S STUDY.

CONS:

-- SAME AS ALL CONS FOR OPTION A.

-- SAME AS SECOND AND THIRD CONS FOR OPTION B.
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-- MAY BE SEEN AS OVER-REACTION BY THE U.S. AND RESULT IN
NON-MODERATES IN OPEC PRESSING HARDER FOR A SIGNIFICANT
PRICE INCREASE.

OPTION D: DECIDE NOT TO TAKE ANY ADDITIONAL ACTION
PRIOR TO THE BALI MEETING.

PROS:

-- WE HAVE ALREADY MADE OUR POSITION KNOWN IN THE CIEC
AND THROUGH THE ZARB TRIP.

-- IS CONSISTENT WITH NON-CONFRONTATIONAL APPROACH TO
OIL PRICE ISSUE THROUGH MULTILATERAL DIALOGUE.

-- AVOIDS CALLING ATTENTION TO OUR IMPOTENCE IF OPEC
DECIDES UPON A PRICE INCREASE.

CONS:

ADMINISTRATION OPEN TO CHARGE THAT WE MAKE INSUFFICIENT
EFFORT.

-- GIVES UP OPPORTUNITY TO CHALLENGE OPEC'S STUDY OF
IMPORTED INFLATION, WHICH WILL PROBABLY BE AN IMPORTANT
ELEMENT IN BALI DISCUSSIONS.

-- COULD BE VIEWED BY PRODUCERS AS ACQUIESCENCE TO
QUOTE MODERATE UNQUOTE PRICE INCREASES.

RECOMMENDATION:

D, E, NEA AND ARA PREFER OPTION C AND RECOMMEND YOU APPROVE
THE ATTACHED CABLE INSTRUCTING OUR AMBASSADORS IN OPEC
COUNTRIES, AT THEIR DISCRETION AND ONLY IF THEY BELIEVE
THAT IT WOULD NOT BE COUNTERPRODUCTIVE, TO MAKE
APPROPRIATE REPRESENTATIONS, BASED UPON THE
CIRCUMSTANCES AND VIEWS OF THE GOVERNMENTS CONCERNED.
THE DEPARTMENT SIMULTANEOUSLY TO ISSUE A STATEMENT,
PREFERABLY IN RESPONSE TO QUESTION AT NOON PRESS BRIEFING.
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APPROVE..... DISAPPROVE

AS A FALLBACK, D, E, NEA AND ARA BELIEVE THAT AT A MINIMUM
WE SHOULD INSTRUCT OUR AMBASSADORS TO MAKE APPROPRIATE
REPRESENTATIONS AS IN THE ATTACHED DRAFT CABLE AT TAB A.

APPROVE..... DISAPPROVE.....

-

EB, EA AND AF, ON THE OTHER HAND, RECOMMEND OPTION B
THAT YOU AGREE TO THE DEPARTMENT'S ISSUING A PUBLIC
STATEMENT ALONG THE LINES ATTACHED AT TAB B. WE WILL
COORDINATE THE FINAL STATEMENT WITH FEA AND TREASURY
BEFORE IT IS ISSUED.

APPROVE..... DISAPPROVE.....

IF YOU DO NOT FAVOR A PUBLIC STATEMENT, EB, EA AND AF
RECOMMEND OPTION D -- THAT WE RELY ON THE RECORD MADE
ALREADY IN CIEC AND WITH THE ZARB TRIP AND TAKE NO
FURTHER ACTION PRIOR TO THE BALI MEETING.

APPROVE..... DISAPPROVE.....

4. APPROVED BY ARA-WROGERS; CLEARED BY D - MR. ROBINSON,
ARA-MR. GRUNWALD, NEA-MR. SOBER,EB-MR. KATZ, EA - MR.
EDMOND, AF-MR. BLAKE. S- MR. AHERNE

5. FOR S/S: TABS A AND B FOLLOW IN SEPTELS.

ROBINSON

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<< END OF DOCUMENT >>

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